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Witness : J. Oh



OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations
for
San Diego Gas & Electric Company
Southern California Gas Company
Test Year 2019
General Rate Case

Summary of Earnings and Taxes

San Francisco, California
April 13, 2018

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1 **SUMMARY OF EARNINGS AND TAXES**

2 **I. INTRODUCTION**

3 This exhibit presents the analysis and recommendations of the Office of
4 Ratepayer Advocates (ORA) regarding the proposals of San Diego Gas & Electric
5 Company (SDG&E) and Southern California Gas Company (SCG or SoCalGas),
6 collectively, the Sempra Utilities (Sempra), associated with their Summary of
7 Earnings and Taxes for Test Year (TY) 2019.

8 The Summary of Earnings tables for SDG&E’s combined gas and electric
9 departments, gas department, and electric department, as well as SoCalGas are
10 displayed in this exhibit. The revenue requirements are calculated by a computer
11 model developed by SDG&E and SoCalGas, which is referred to as the Results of
12 Operations (RO) model. The data inputs are provided by the various ORA
13 witnesses. These inputs are then used by the RO model to calculate the Summary
14 of Earnings.¹

15 This exhibit also addresses taxes. Regulated tax expense comprises the
16 following items: (1) Federal Income Taxes (FIT) and State Income Taxes (California
17 Corporate Franchise Taxes (CCFT)); (2) payroll taxes; and (3) property, or ad
18 valorem taxes. Additionally, the utilities also pay franchise fees. These tax expense
19 categories are the composite of projected taxable income streams, book expenses,
20 special tax deductions, and tax credits, calculated within the combined contexts of
21 “real world” tax law, and “regulatory” tax policy. Tax expense also includes taxes,
22 which are not a function of income streams, but of the payment of employee
23 compensation, and the ownership of property.

¹ The Summary of Earning displayed in this exhibit uses SDG&E’s and SoCalGas’ December 2017 RO model, updated for January 2018 present revenues (see footnote 4); this version of the RO model has not been updated for the new federal tax law. Exhibit (Ex.) ORA- 35 presents the Summary of Earnings using SDG&E’s and SoCalGas’ tax updated RO model of April 6, 2018. ORA’s capital and expense adjustments for both Ex. ORA-02 and Ex. ORA-35 are the same. ORA has not tested or verified the April 6, 2018 tax updated RO model.

1 ORA's forecast tax expenses are computed in the RO model, since they are
2 dependent upon ORA's forecasts of income, expenses, and plant balances.

3 **II. SUMMARY OF RECOMMENDATIONS**

4 **A. SDG&E Summary of Earnings**

5 The SDG&E Results of Operations for electric and gas distribution are
6 summarized in twelve (12) tables shown at the end of this exhibit. For the total
7 combined gas and electric operations:

- 8 • Table 2-1 contains ORA's summary of earnings and recommended
9 revenue requirements at present and proposed rates;
- 10 • Table 2-2 displays SDG&E's summary of earnings and requested
11 revenue requirements at present and proposed rates;
- 12 • Table 2-3 compares ORA's and SDG&E's summary of earnings
13 and revenue requirements at proposed rates; and
- 14 • Table 2-4 compares ORA's and SDG&E's summary of earnings
15 and revenue requirements at present rates.

16 For gas operations:

- 17 • Table 2-5 contains ORA's summary of earnings and recommended
18 revenue requirements at present and proposed rates;
- 19 • Table 2-6 displays SDG&E's summary of earnings and requested
20 revenue requirements at present and proposed rates;
- 21 • Table 2-7 compares ORA's and SDG&E's summary of earnings
22 and revenue requirements at proposed rates; and
- 23 • Table 2-8 compares ORA's and SDG&E's summary of earnings
24 and revenue requirements at present rates.

25 For the combined electric² operations:

- 26 • Table 2-9 contains ORA's summary of earnings and recommended
27 revenue requirements at present and proposed rates;
- 28 • Table 2-10 displays SDG&E's summary of earnings and requested
29 revenue requirements at present and proposed rates;

² Comprising electric distribution and electric generation.

- 1 • Table 2-11 compares ORA's and SDG&E's summary of earnings
2 and revenue requirements at proposed rates; and
- 3 • Table 2-12 compares ORA's and SDG&E's summary of earnings
4 and revenue requirements at present rates.

5 **B. SoCalGas Summary of Earnings**

6 The SoCalGas Results of Operations are summarized in four (4) tables
7 shown at the end of this exhibit:

- 8 • Table 2-13 contains ORA's summary of earnings and
9 recommended revenue requirements at present and proposed
10 rates;
- 11 • Table 2-14 displays SoCalGas' summary of earnings and
12 requested revenue requirements at present and proposed rates;
- 13 • Table 2-15 compares ORA's and SoCalGas' summary of earnings
14 and revenue requirements at proposed rates; and
- 15 • Table 2-16 compares ORA's and SoCalGas' summary of earnings
16 and revenue requirements at present rates.

17 **C. SDG&E and SoCal Gas Rate Base**

18 SDG&E's and SoCalGas' Weighted-Average Depreciated Rate Base are
19 summarized in four (4) tables shown at the end of this exhibit:

- 20 • Table 2-17 compares ORA's and SDG&E's combined gas and
21 electric rate base at proposed rates;
- 22 • Table 2-18 compares ORA's and SDG&E's gas section rate base at
23 proposed rates;
- 24 • Table 2-19 compares ORA's and SDG&E's electric section rate
25 base at proposed rates;
- 26 • Table 2-20 compares ORA's and SoCalGas' rate base at proposed
27 rates.

28 **D. Taxes**

29 The following summarizes ORA's tax-related recommendations for both
30 SDG&E and SoCalGas:

- 31 • ORA recommends adopting FICA maximum taxable earnings for
32 2018 of \$128,400 that the Social Security Administration
33 established in November 2017.
- 34 • ORA recommends using FICA maximum taxable earnings for 2019
35 of \$132,300.

- 1 • With the exception of 2018 and 2019 FICA maximum taxable
2 earning differences, ORA does not object to the methodology and
3 calculation for payroll tax.
- 4 • ORA does not oppose the method by which SDG&E and SoCalGas
5 calculated income, ad valorem, and franchise fees for TY 2019.
- 6 • ORA recommends the continuation of the Tax Memorandum
7 Account.

1

PART I: SUMMARY OF EARNINGS

2 I. RESULTS OF OPERATIONS MODEL

3 SDG&E and SoCalGas filed their TY 2019 GRC applications on October 6,
4 2017, and provided ORA with an accompanying RO model.

5 ORA's witnesses provided input data for the RO model.³ Discussions and
6 analyses of the input data are contained in the corresponding ORA exhibits. ORA
7 made some minor modifications to the December 2017 version of the RO model and
8 some manual inputs to accommodate various ORA witnesses' requests, so that the
9 RO could reflect their recommendations.

10 The values shown in the RO tables at the end of this exhibit were extracted
11 from the same RO model with different inputs. The numbers shown in the SDG&E
12 and SoCalGas columns were extracted from the RO version that was provided on
13 December 2017.⁴ The figures displayed in the ORA columns were extracted from
14 the same RO models with ORA's forecasts of expenses and capital-related items.

³ ORA's RO model incorporates the Labor and Non-Labor escalation rates presented in Ex. ORA-28 for expenses. For capital escalation rates, ORA maintained SDG&E's and SoCalGas' proposals.

⁴ With direction provided by SDG&E and SoCalGas, ORA made four adjustments to the present revenue requirements to the December 2017 RO model so that results from that version of the RO model are consistent with SDG&E's and SoCalGas' January 2018 filing which contained updated present revenues.

1 **PART II: TAXES**

2 **I. PAYROLL AND OTHER TAXES**

3 SDG&E and SoCalGas state that the payroll tax expenses they must pay are
4 as follows: (1) taxes associated with the Federal Insurance Contribution Act (FICA);
5 (2) taxes associated with the Federal Unemployment Tax Act (FUTA); and (3) taxes
6 associated with California State Unemployment Insurance (SUI).⁵

7 **A. Summary of of SDG&E’s and SoCalGas’ Requests**

8 SDG&E and SoCalGas state that payroll taxes are a function of taxable
9 wages and applicable tax rates.⁶ Computation of the estimated payroll taxes begins
10 with the 2016 taxable wages stratified into salary increments. The annual wage
11 base in effect for the year for each type of payroll tax was applied to the total wages
12 to ensure that wages up to, but not exceeding, the wage base cap were subject to
13 the tax. Thus, wages up to the salary increment where the annual wage is closest to
14 the wage base cap are subject to the tax. Wages above the wage base cap for any
15 particular type of payroll tax were derived from multiplying the number of employees
16 in each stratum above the cap by the wage base cap. The resulting taxable wages
17 for each type of tax type were totaled and the applicable statutory tax rate was then
18 applied to the total taxable wages. The Medicare portion of the FICA tax is
19 computed without respect to a wage base since all wages are subject to that tax. A
20 companywide composite tax rate was computed based on total forecast payroll
21 taxes using the above methodology divided by total forecast wages. The composite
22 payroll tax rate for each year was applied to labor dollars applicable to this GRC to
23 determine the employer’s payroll tax expense.⁷

⁵ Ex. SDG&E-35-R, p. RGR-2 and Ex. SCG-37-R, p. RGR-2.

⁶ Ibid.

⁷ Ex. SDG&E-35-R, p. RGR-3 and Ex. SCG-37-R, p. RGR-3.

1 **B. ORA's Analysis**

2 ORA reviewed SDG&E's and SoCalGas' testimony, workpapers, and
3 discovery responses. ORA does not take issue with SDG&E's and SoCalGas'
4 payroll tax calculation methodology. ORA concurs with the Federal Insurance
5 Contribution Act (FICA) tax rate of 6.2% on the first \$118,500 in 2016 and \$127,200
6 in 2017; Medicare tax rate of 1.45% without limit; Federal Unemployment Tax Act
7 (FUTA) tax rate of 2.4% on the first \$7,000 paid to each employee; and California
8 State Unemployment Insurance (SUI) tax rate of 3.1% on the first \$7,000 paid to
9 each employee, or that the Unemployment Insurance component of the SUI is
10 expected to decrease to 3.0% for 2017-2019.⁸

11 ORA differs with SDG&E and SoCalGas on the maximum FICA wage base
12 for 2018 and 2019. SDG&E and SoCalGas both projected maximum FICA wage
13 base for 2018 of \$130,500 and for 2019 of \$135,600. However, in November 2017,
14 the Office of Retirement and Disability Policy established a new 2018 maximum
15 FICA wage base of \$128,400. As such, ORA recommends that the Commission
16 adopt a 2018 FICA wage base of \$128,400.

17 For 2019, ORA recommends that a maximum FICA wage base of \$132,300
18 be used. ORA determined the \$132,300 by using a five year trend to derive the
19 2017 average wage index, which in turn was used in the formula for determining the
20 OASDI contribution and benefit base set by law.⁹ Table A-1 below shows how ORA
21 determined the Social Security maximum taxable wage limit.

⁸ Ex. SDG&E-35-R, p. RGR-2 and Ex. SCG-37-R, p. RGR-2.

⁹ The formula states that the base for any year Y after 1994 is equal to the 1994 base of \$60,600 multiplied by the ratio of the national average wage index for year (Y-2) to that for 1992, with the result rounded to the nearest multiple of \$300. If the result is less than the current base, the base is not reduced.

1

Table A-1

ORA Determination of Social Security Maximum Taxable Wage Limit				
			2018	2019
Amounts in formula	1994 base	\$60,600	60,600.00	60,600.00
	1992 average wage index	22,935.42	22,935.42	22,935.42
	2016 average wage index	48,642.15	48,642.15	50,041.86
Computation	\$60,600 times 48,642.15 divided by 22,935.42 equals \$128,522.36, which rounds to \$128,400		128,522.36	132,220.67
Higher amount	\$128,400 exceeds the base for 2017, so the base for 2018 is \$128,400		128,400.00	132,300.00

2

3 As SDG&E and SoCalGas use a composite payroll tax rate, ORA requested
4 that SDG&E and SoCalGas provide a composite tax rate for 2018 and 2019 based
5 on ORA's recommended maximum FICA wage base of \$128,400 and \$132,300,
6 respectively.¹⁰ The two tables below summarize the composite payroll tax rate.

7

8

Table A-2
Composite Payroll Tax Rates

	2016	2017	2018	2019
SDG&E	6.68%	6.77%	6.65%	6.66%
ORA	6.68%	6.77%	6.61%	6.60%
Difference	0%	0%	0.04%	0.06%

9

	2016	2017	2018	2019
SoCalGas	7.51%	7.58%	7.43%	7.44%
ORA	7.51%	7.58%	7.40%	7.40%
Difference	0%	0%	0.03%	0.04%

10

¹⁰ ORA data request ORA-SDGE-044-JOH and ORA-SCG-028-JOH.

1 **II. AD VALOREM TAXES**

2 SDG&E and SoCalGas state that ad valorem taxes are a function of the
3 assessed value of property and a tax rate applied to that value.¹¹ Property owned
4 and used by public utilities as of January 1 (the lien date) each year is re-assessed
5 to its full market value by the California State Board of Equalization (SBE). The
6 primary indicator of value for regulated public utility property is the Historical Cost
7 Less Depreciation (HCLD) indicator, and a secondary indicator is the Capitalized
8 Earnings Ability (CEA).¹²

9 SDG&E and SoCalGas state that the HCLD is the primary indicator of value
10 for closely rate-regulated property because it approximates rate base. HCLD is
11 equal to the estimated cost of property, which is subject to assessment by the SBE,
12 less the accumulated depreciation taken on the property. Historical cost consists of
13 the original cost of plant balances on the January 1 lien date, plus construction work-
14 in-progress and materials and supplies on hand to operate the plant. Adjustment
15 are made to add the value of possessory interest held by the utility on government-
16 owned property and to deduct non-taxable licensed motor vehicles, software,
17 leasehold improvements, business inventories, and other property not subject to ad
18 valorem taxes. The HCLD indicator is adjusted by deducting the accumulated
19 deferred federal income taxes on taxable property.¹³

20 SDG&E and SoCalGas state that the CEA is designed to recognize the
21 concept that the value of business property is closely related to its ability to generate
22 income. The CEA is a secondary indicator of value for public utility property
23 because the income of public utility property is limited by regulation, and comparison
24 to the income stream from similar properties is limited.¹⁴

¹¹ Ex. SDG&E-35-R, p. RGR-4 and Ex. SCG-37-R, p. RGR-3.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

1 **A. Summary of SDG&E’s and SoCalGas’ Requests**

2 SDG&E and SoCalGas state that they filed their property statements with
3 SBE for the 2016 and 2017 lien dates.¹⁵ And that the property statements form the
4 basis of the appraisals to set the value of SDG&E’s and SoCalGas’ property for the
5 2016-2017 and 2017-2018 fiscal year. In correlating the value indicators calculated
6 by the SBE from information contained in the property statement, SBE applied a
7 weighting of 75% to the HCLD indicator and 25% to the CEA indicator to derive the
8 total appraised value of SDG&E’s and SoCalGas’ unitary property.¹⁶

9 SDG&E and SoCalGas state that SBE has followed the same assessment
10 methodology for several years; consequently, SDG&E and SoCalGas followed this
11 methodology to estimate the assessed value for unitary property and the resulting ad
12 valorem tax expense estimate for TY 2019.¹⁷

13 The tax rate used to estimate California ad valorem taxes is the basic
14 statewide tax rate of 1% established under Proposition 13, plus an additional rate
15 component of 0.4986%, which is a composite rate derived from dividing taxes paid
16 to local jurisdictions by the total assessed value of property in all voter approved
17 local assessment districts as allowed under Proposition 13. The escalation in the
18 rates from 2016 to 2019 represent the average historical rate of increase in local tax
19 rates over the most recent five-year period.¹⁸

20 **B. ORA’s Analysis**

21 ORA reviewed SDG&E’s and SoCalGas’ testimony and workpapers, and
22 does not oppose their ad valorem tax estimating methodology.

¹⁵ Ibid.

¹⁶ Ex. SDG&E-35-R, p. RGR-5 and Ex. SCG-37-R, p. RGR-4.

¹⁷ Ex. SDG&E-35-R, p. RGR-5 and Ex. SCG-37-R, p. RGR-5.

¹⁸ Ibid.

1 **III. INCOME TAXES**

2 The following section provides a brief background of regulated tax expense
3 and a discussion of certain specific tax deductions, credits and other tax policy
4 issues related to determining taxable income for ratemaking purposes. Unless
5 otherwise noted, all discussions apply equally to both federal and state income tax
6 expense.

7 **A. Basis for Regulated Income Tax Expense**

8 While the mathematical model used to calculate tax expense is seemingly
9 unequivocal, the underlying accounting conventions, applicable tax rates, and the
10 determination of what constitutes allowable deductions is a function of current
11 federal and state tax law, including new laws expected to affect the Test Year;
12 regulatory tax policy as determined by numerous Commission decisions; and ORA's
13 recommended tax policy. Much of existing Commission tax policy was established
14 in Order Instituting Investigation 24 (OII 24), Decision (D.) 84-05-036.¹⁹ Numerous
15 subsequent decisions adopted a variety of changes in ratemaking tax policy in order
16 to comply with changes in federal and state tax laws. Consequently, although a
17 mathematical model may be used, there are a number of estimated factors driving
18 income tax expense requiring a review to attempt to assess the reasonableness of
19 the utilities' request.

20 ORA also attempts to ensure that the Test Year's income tax expense
21 estimate reflects, to the extent possible, the current deduction of expenses in which
22 there is a book/tax timing difference. In D.84-05-036, the Commission stated, "[f]or
23 the present, we will continue our current policy regarding flow-through treatment of
24 timing differences consistent with applicable tax law."²⁰ ORA assumes the

¹⁹ 15 CPUC 2d 42 (1984).

²⁰ See D.84-05-036, discussion at Section I, pp. 32-33a. The Commission did not adopt additional normalization requirements beyond those required for depreciation.

1 Commission will continue to adopt policies which result in the Test Year tax estimate
2 reflecting, to the extent possible,²¹ the flow-through of forecast expenditures.

3 Another important factor is the ratemaking concept of normalization. Its aim
4 is to adjust a utility's operating expenses in the Test Year by eliminating abnormal,
5 non-annual events that are known and certain to change in a regularly recurring
6 manner. For example, accelerated depreciation is a tax expense, which is
7 normalized over the life of an asset when computing ratemaking tax expense. It is
8 known and certain that, toward the end of the life of an asset, straight-line (book)
9 depreciation will exceed accelerated tax depreciation. However, at the conclusion of
10 the asset's life, the total depreciation charges under both book and tax methods will
11 be equivalent.

12 Income tax normalization permits a utility to include as its current ratemaking
13 expense an amount of income tax expense that is higher than what the utility will
14 actually pay. This is based on the theory that the taxes saved by the accelerated
15 depreciation (taken on the real world tax returns) are merely deferred. Utilities
16 generally use accelerated methods of depreciation on their real world tax returns,
17 while using the straight-line method for book purposes. Internal Revenue Service
18 (IRS) rules require that utilities use book depreciation rates on all plant purchased or
19 constructed after 1980 when computing regulated tax expense. To mitigate the
20 effect of normalization, the tax effect of the differences between accelerated and
21 straight-line depreciation is booked to a deferred tax reserve. The deferred taxes
22 are used to reduce rate base.

23 Because of current tax law, utilities are required to adopt normalization for
24 depreciation on assets placed in service after 1980. However, there is no federal tax
25 requirement that normalization be used for other tax timing differences. In fact, it is
26 the policy of this Commission to flow through non-plant tax timing differences.
27 Consequently, all federal and state tax timing differences should be flowed through

²¹ ORA's recommended treatment for certain tax deductions and benefits is limited by Income Tax Normalization requirements of the Internal Revenue Code, as well as tax policy established in D.84-05-036. For example, currently, disallowed expenses cannot be used as tax deductions.

1 to the ratepayer to the extent allowed by Commission policy, and federal and state
2 tax law.

3 **B. Summary of SDG&E's and SoCalGas' Requests**

4 For Federal Income Tax (FIT) purposes, SDG&E and SoCalGas used the
5 corporate tax rate of 35% in their initial filing. Following the passage of the Tax Cuts
6 and Jobs Act (TCJA) on December 22, 2017, the corporate tax rate was reduced to
7 21%. For state income tax purposes, they used the corporate tax rate of 8.84% to
8 compute California Corporate Franchise Taxes (CCFT).

9 SDG&E and SoCalGas state that state income tax expense has been
10 computed by reducing operating income by operating expense, including property
11 taxes, payroll taxes, and making certain permanent and flow through tax
12 adjustments for differences in the book and state tax return treatment of items of
13 income and expense (Schedule M adjustments).²²

14 Federal income tax expense has been computed by reducing operating
15 income by operating expenses, including property taxes, payroll taxes, prior year
16 state taxes, and making tax adjustments for differences in the book and federal tax
17 treatment of certain items of income and expense (Schedule M adjustments).²³

18 **C. ORA's Analysis**

19 ORA reviewed SDG&E and SoCalGas' income tax adjustments, deductions,
20 and credits as filed and revised in January 2018. ORA does not take issue with any
21 of those adjustments, deductions and credits.

²² Ex. SDG&E-35-R, p. RGR-10 and Ex. SCG-37-R, p. RGR-8.

²³ Ibid.

1 **IV. FRANCHISE FEES**

2 SDG&E and SoCalGas state that franchise fees are payments made to
3 counties and incorporated cities pursuant to local ordinances granting a franchise to
4 the company to place utility property in the public rights of way.²⁴ For SoCalGas,
5 these facilities include pipes and appurtenances for transmitting and distributing
6 gas.²⁵ For SDG&E, these facilities include poles, wires, conduits, and
7 appurtenances for transmitting and distributing electricity, and pipes and
8 appurtenances for transmitting and distributing gas.²⁶

9 SDG&E and SoCalGas state that franchise fees are calculated using two
10 formulas: 1) the “Broughton Act” formula, and (2) the “Percent of Gross Receipts”
11 formula.²⁷ The Broughton Act formula is calculated based upon the summarized
12 receipts within each city or county as allocated by electric pole line and gas pipeline
13 mileage (for SDG&E) and gas pipeline mileages (for SoCalGas) in their public right-
14 of-way, and the applicable franchise fee rate pursuant to the franchise fee
15 ordinance. The Percent of Gross Receipts formula is calculated based upon the
16 summarized receipts within each city or county, and the applicable franchise fee rate
17 pursuant to the franchise fee ordinance.²⁸

18 SDG&E and SoCalGas state that the franchise agreement with each taxing
19 authority specifies which of the two methods SDG&E and SoCalGas will use to
20 determine its franchise fee liability.²⁹

²⁴ Ex. SDG&E-35-R, p. RGR-29 and Ex. SCG-37-R, p. RGR-23.

²⁵ Ex. SCG-37-R, p. RGR-23.

²⁶ Ex. SDG&E-35-R, p. RGR-29.

²⁷ Ex. SDG&E-35-R, p. RGR-30 and Ex. SCG-37-R, p. RGR-24.

²⁸ Ibid.

²⁹ Ibid.

1 **A. Summary of SDG&E’s and SoCalGas’ Requests**

2 SDG&E had 28 franchise fee agreements as of January 1, 2017.³⁰
3 SoCalGas had franchise fee agreements with 248 taxing jurisdictions as of January
4 1, 2017.³¹ SDG&E and SoCalGas state that the franchise fee requirements are
5 based upon gross receipts representing the recovery of base margin. The franchise
6 factors upon which the estimated 2017-2019 franchise fees were determined are
7 based on a summary of 2016 electric and gas sales, transportation revenues, rate
8 refunds, and uncollectibles for SDG&E.³² For SoCalGas, the franchise factors are
9 based on a summary of 2016 gas sales, transportation revenues, rate refunds, state
10 fees, uncollectible, and miscellaneous service receipts.³³

11 SDG&E and SoCalGas state that the total payments to all taxing authorities
12 were summed and divided by total receipts to arrive at a system-wide franchise fee
13 factor. The system-wide franchise fee factors for the most recent five years were
14 then averaged to yield a forecast average franchise fee factor for TY 2019.³⁴ For
15 SDG&E, the average franchise fee factor for TY 2019 is projected to be 3.4468% for
16 electric and 2.0799% for gas based on the trend from actual 2012-2016 franchise
17 fees.³⁵ For SoCalGas, the average franchise fee factor for TY 2019 is projected to
18 be 1.3720% based on the trend from actual 2012-2016 franchise fees.³⁶

19 **B. ORA’s Analysis**

20 ORA reviewed SDG&E’s and SoCalGas’ testimony, workpapers, and
21 discovery responses for franchise fees and does not oppose the use of system-wide
22 five-year average franchise fee factor.

³⁰ Ex. SDG&E-35-R, p. RGR-30.

³¹ Ex. SCG-37-R, p. RGR-23.

³² Ex. SDG&E-35-R, p. RGR-29.

³³ Ex. SCG-37-R, p. RGR-23.

³⁴ Ex. SDG&E-35-R, p. RGR-30 and Ex. SCG-37-R, p. RGR-24.

³⁵ Ex. SDG&E-35-R, p. RGR-30.

³⁶ Ex. SCG-37-R, p. RGR-24.

1 **V. TAX MEMORANDUM ACCOUNT**

2 SDG&E and SoCalGas state that in their 2016 GRC Decision, the
3 Commission directed them to establish a Tax Memorandum Account (TMA) for the
4 2016 GRC cycle (January 1, 2016 – December 31, 2018).³⁷

5 Pursuant to the Commission’s directives, SDG&E and SoCalGas filed Advice
6 Letters No. 2928-E-A/2496-G-A and 4994-A, respectively, on September 16, 2016 to
7 establish the TMA.³⁸

8 The TMA is a two-way tracking account that separately tracks the revenue
9 requirement impact of the differences between tax expenses forecasted and tax
10 expenses incurred resulting from: (1) net revenue changes resulting from
11 differences between forecasted federal and state tax adjustments and tax credits to
12 incurred federal and state tax adjustments and tax credits; (2) mandatory tax law
13 changes, tax accounting changes, tax procedural changes, and tax policy changes;
14 (3) elective tax law changes, tax accounting changes, tax procedural changes, and
15 tax policy changes; (4) the completion of audits by federal and state taxing
16 authorities; and (5) the implementation of any IRS private letter ruling regarding
17 compliance with IRS normalization regulations.³⁹

18 **A. Proposal for Test Year 2019 GRC Cycle**

19 SDG&E and SoCalGas state that during the TY 2019 GRC cycle, SDG&E
20 and SoCalGas will continue to notify the Commission of any tax-related law
21 changes, accounting changes, policy changes, or procedural changes that materially
22 affect (or may materially affect) revenues,⁴⁰ and will continue to report the revenue
23 impact of any such changes to the Commission.⁴¹

³⁷ Ex. SDG&E-35-R, p. RGR-23 and Ex. SCG-37-R, p. RGR-17.

³⁸ Ex. SDG&E-35-R, p. RGR-23 and Ex. SCG-37-R, p. RGR-17.

³⁹ Ibid.

⁴⁰ “Materially affect” for this purpose means a potential increase or decrease of \$3 million or more.

⁴¹ Ex. SDG&E-35-R, p. RGR-28 and Ex. SCG-37-R, p. RGR-22.

1 Accordingly, SDG&E and SoCalGas believe a TMA is no longer necessary
2 and request that the Commission eliminate the TMA for SDG&E and SoCalGas'
3 2019 GRC cycle.⁴²

4 If the Commission disagrees with SDG&E and SoCalGas' and believes the
5 TMA is necessary for the 2019 GRC cycle, SDG&E and SoCalGas propose that the
6 Commission reaffirm that the TMA is not intended to be a true-up mechanism for
7 taxes (and thus is not intended to track the difference between forecast and actual
8 tax deductions that are caused by factors outside of the tax and unrelated to
9 changes in tax law, tax accounting methods, tax procedures, or tax policy), but is
10 intended to track the revenue impact of changes in tax law, tax accounting methods,
11 tax procedures, and tax policy.⁴³

12 **B. ORA's Analysis**

13 ORA opposes SDG&E and SoCalGas' proposal to eliminate the TMA. Given
14 the recently enacted tax law changes, the uncertainty of the bonus depreciation
15 rules, the complexity of the Average Rate Assumption Method (ARAM) and the
16 likelihood of the issuance of IRS regulations interpreting the new tax law, ORA
17 supports the extension of the TMA.

18 ORA recommends that the TMA should track any revenue differences
19 resulting from the differences in the income tax expense forecast in SDG&E and
20 SoCalGas' GRC, and the tax expenses incurred during the GRC period, including
21 any revenue differences resulting from changes in tax deductions, deferred tax
22 assets and liabilities, and other items impacted by tax changes. The purpose of the
23 TMA should be to increase the transparency of SDG&E and SoCalGas' incurred and
24 forecast tax expense. The account should have separate line items detailing the
25 differences between tax expenses forecasted and tax expenses incurred. Given the
26 extensive changes in the current tax law, the TMA should also incorporate changes
27 to deferred income taxes and other functional accounts that are impacted by the tax

⁴² Ex. SDG&E-35-R, p. RGR-29 and Ex. SCG-37-R, p. RGR-22.

⁴³ Ex. SDG&E-35-R, p. RGR-29 and Ex. SCG-37-R, p. RGR-23.

- 1 law. If tax changes result in significant balances, SDG&E and SoCalGas should file
- 2 an annual advice letter to make appropriate adjustments to revenue requirement.
- 3

1 **WITNESS QUALIFICATIONS**

2 My name is K. Jerry Oh. My business address is 505 Van Ness Avenue, San
3 Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA)
4 as a Public Utilities Regulatory Analyst V in the Energy Cost of Service and Natural
5 Gas Branch.

6 I have a Bachelor of Arts degree in Business Economics from the University
7 of California, Los Angeles. Prior to joining the Commission, I was employed as a
8 Bank Examiner with the California Department of Financial Institutions conducting
9 financial soundness and safety examinations.

10 In 2000, I joined the Commission’s Energy Division and worked on different
11 accounting and financial issues, including procurement and Energy Resource
12 Recovery Account (ERRA). In 2007, I transferred to ORA’s Water Branch and have
13 worked on large water utility general rate cases. I have been ORA’s expert witness
14 on Administrative and General expenses, Operations and Maintenance expenses,
15 Cost of Capital, Affiliate Transactions, Taxes, and Results of Operations. In 2011, I
16 transferred to ORA’s Energy Cost of Service and Natural Gas Branch and since then
17 have worked as a contract manager, and as an expert witness in Taxes, Results of
18 Operations, Cost of Capital, Information Technology, and Corporate Center / Shared
19 Services / Shared Assets. I have previously testified in formal Commission
20 hearings.

21 This completes my prepared testimony.

TABLE 02-1
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
COMBINED SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	<u>Description</u>	ORA 2019 Present Rates (2019\$)	ORA 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 1,961,947	\$ 1,957,196
2	Miscellaneous Revenues	32,233	33,997
3	Revenue Requirement	\$ 1,994,180	\$ 1,991,193
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	161,455	161,455
5	Gas Transmission	6,290	6,290
6	PSEP	-	-
7	Generation	40,616	40,616
8	Engineering	11,000	11,000
9	Procurement	8,641	8,641
10	Customer Services	88,835	88,835
11	Information Technology	84,305	84,305
12	Support Services	85,254	85,254
13	Administrative and General	391,396	391,396
14	Subtotal (2016\$)	\$ 877,791	\$ 877,791
15	Shared Services Adjustments	(13,126)	(13,126)
16	Reassignments	(136,045)	(136,045)
17	FERC Transmission Costs	(63,170)	(63,170)
18	Escalation	25,921	25,921
19	Uncollectibles	3,414	3,406
20	Franchise Fees	63,192	62,036
21	Total O&M (2019\$)	\$ 757,976	\$ 756,812
22	Depreciation & Amortization	516,703	516,703
23	Taxes on Income	168,728	173,274
24	Taxes Other Than on Income	115,102	115,102
25	Total Operating Expenses	\$ 1,558,509	\$ 1,561,891
26	Return	435,671	429,302
27	Rate Base	5,686,981	5,686,121
28	Rate of Return	7.66%	7.55%

TABLE 02-2
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
COMBINED SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	SDG&E 2019 Present Rates (2019\$)	SDG&E 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 1,961,947	\$ 2,178,274
2	Miscellaneous Revenues	19,199	17,976
3	Revenue Requirement	\$ 1,981,146	\$ 2,196,250
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	194,263	194,263
5	Gas Transmission	6,668	6,668
6	PSEP	-	-
7	Generation	63,412	63,412
8	Engineering	11,000	11,000
9	Procurement	8,641	8,641
10	Customer Services	94,453	94,453
11	Information Technology	96,357	96,357
12	Support Services	100,354	100,354
13	Administrative and General	480,918	480,918
14	Subtotal (2016\$)	\$ 1,056,065	\$ 1,056,065
15	Shared Services Adjustments	(16,573)	(16,573)
16	Reassignments	(183,853)	(183,853)
17	FERC Transmission Costs	(74,320)	(74,320)
18	Escalation	32,901	32,901
19	Uncollectibles	3,414	3,790
20	Franchise Fees	63,192	69,213
21	Total O&M (2019\$)	\$ 880,825	\$ 887,222
22	Depreciation & Amortization	559,662	559,662
23	Taxes on Income	60,927	151,998
24	Taxes Other Than on Income	120,540	120,540
25	Total Operating Expenses	\$ 1,621,954	\$ 1,719,422
26	Return	360,051	476,828
27	Rate Base	6,310,165	6,315,601
28	Rate of Return	5.71%	7.55%

TABLE 02-3
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
COMBINED SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019 Proposed Rates (2019\$)	2019 Proposed Rates (2019\$)	\$ Variance	% Variance
1	Base Margin	\$ 1,957,196	\$ 2,178,274	\$ 221,078	11.3%
2	Miscellaneous Revenues	33,997	17,976	(16,021.00)	-47.1%
3	Revenue Requirement	\$ 1,991,193	\$ 2,196,250	\$ 205,057	10.3%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	161,455	194,263	32,808	20.3%
5	Gas Transmission	6,290	6,668	378	6.0%
6	PSEP	-	-	-	0.0%
7	Generation	40,616	63,412	22,796	56.1%
8	Engineering	11,000	11,000	-	0.0%
9	Procurement	8,641	8,641	-	0.0%
10	Customer Services	88,835	94,453	5,619	6.3%
11	Information Technology	84,305	96,357	12,052	14.3%
12	Support Services	85,254	100,354	15,101	17.7%
13	Administrative and General	391,396	480,918	89,522	22.9%
14	Subtotal (2016\$)	\$ 877,791	\$ 1,056,065	178,275	20.3%
15	Shared Services Adjustments	(13,126)	(16,573)	(3,447)	26.3%
16	Reassignments	(136,045)	(183,853)	(47,808)	35.1%
17	FERC Transmission Costs	(63,170)	(74,320)	(11,150)	17.7%
18	Escalation	25,921	32,901	6,980	26.9%
19	Uncollectibles	3,406	3,790	384	11.3%
20	Franchise Fees	62,036	69,213	7,177	11.6%
21	Total O&M (2019\$)	\$ 756,812	\$ 887,222	130,410	17.2%
22	Depreciation & Amortization	516,703	559,662	42,959	8.3%
23	Taxes on Income	173,274	151,998	(21,276)	-12.3%
24	Taxes Other Than on Income	115,102	120,540	5,438	4.7%
25	Total Operating Expenses	\$ 1,561,891	\$ 1,719,422	157,531	10.1%
26	Return	429,302	476,828	47,526	11.1%
27	Rate Base	5,686,121	6,315,601	629,480	11.1%
28	Rate of Return	7.55%	7.55%	(0)	0.0%

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TABLE 02-4
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
COMBINED SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019 Present Rates (2019\$)	2019 Present Rates (2019\$)	\$ Variance	% Variance
1	Base Margin	\$ 1,961,947	\$ 1,961,947	\$ -	0.0%
2	Miscellaneous Revenues	32,233	19,199	(13,034)	-40.4%
3	Revenue Requirement	\$ 1,994,180	\$ 1,981,146	\$ (13,034)	-0.7%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	161,455	194,263	32,808	20.3%
5	Gas Transmission	6,290	6,668	378	6.0%
6	PSEP	-	-	-	0.0%
7	Generation	40,616	63,412	22,796	56.1%
8	Engineering	11,000	11,000	-	0.0%
9	Procurement	8,641	8,641	-	0.0%
10	Customer Services	88,835	94,453	5,619	6.3%
11	Information Technology	84,305	96,357	12,052	14.3%
12	Support Services	85,254	100,354	15,101	17.7%
13	Administrative and General	391,396	480,918	89,522	22.9%
14	Subtotal (2016\$)	\$ 877,791	\$ 1,056,065	\$ 178,275	20.3%
15	Shared Services Adjustments	(13,126)	(16,573)	(3,447)	26.3%
16	Reassignments	(136,045)	(183,853)	(47,808)	35.1%
17	FERC Transmission Costs	(63,170)	(74,320)	(11,150)	17.7%
18	Escalation	25,921	32,901	6,980	26.9%
19	Uncollectibles	3,414	3,414	0	0.0%
20	Franchise Fees	63,192	63,192	0	0.0%
21	Total O&M (2019\$)	\$ 757,976	\$ 880,825	\$ 122,849	16.2%
22	Depreciation & Amortization	516,703	559,662	42,959	8.3%
23	Taxes on Income	168,728	60,927	(107,801)	-63.9%
24	Taxes Other Than on Income	115,102	120,540	5,438	4.7%
25	Total Operating Expenses	\$ 1,558,509	\$ 1,621,954	\$ 63,445	4.1%
26	Return	435,671	360,051	(75,620)	-17.4%
27	Rate Base	5,686,981	6,310,165	623,184	11.0%
28	Rate of Return	7.66%	5.71%	-1.95%	-25.5%

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TABLE 02-5
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
GAS SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	ORA
		2019	2019
		Present Rates	Proposed Rates
		(2019\$)	(2019\$)
1	Base Margin	\$ 324,291	\$ 396,843
2	Miscellaneous Revenues	4,206	5,970
3	Revenue Requirement	\$ 328,497	\$ 402,813
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	32,311	32,311
5	Gas Transmission	6,290	6,290
6	PSEP	-	-
7	Generation	280	280
8	Engineering	11,000	11,000
9	Procurement	-	-
10	Customer Services	32,951	32,951
11	Information Technology	21,783	21,783
12	Support Services	19,052	19,052
13	Administrative and General	73,420	73,420
14	Subtotal (2016\$)	\$ 197,087	\$ 197,087
15	Shared Services Adjustments	6,539	6,539
16	Reassignments	(30,414)	(30,414)
17	FERC Transmission Costs	-	-
18	Escalation	8,378	8,378
19	Uncollectibles	564	691
20	Franchise Fees	6,745	8,254
21	Total O&M (2019\$)	\$ 188,900	\$ 190,535
22	Depreciation & Amortization	84,088	84,088
23	Taxes on Income	1,238	33,095
24	Taxes Other Than on Income	20,983	20,983
25	Total Operating Expenses	\$ 295,208	\$ 328,701
26	Return	33,289	74,112
27	Rate Base	980,964	981,613
28	Rate of Return	3.39%	7.55%

TABLE 02-6
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2016
GAS SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	<u>Description</u>	SDG&E 2019 Present Rates <u>(2019\$)</u>	SDG&E 2019 Proposed Rates <u>(2019\$)</u>
1	Base Margin	\$ 324,291	\$ 429,293
2	Miscellaneous Revenues	4,206	2,983
3	Revenue Requirement	\$ 328,497	\$ 432,276
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	36,480	36,480
5	Gas Transmission	6,668	6,668
6	PSEP	-	-
7	Generation	280	280
8	Engineering	11,000	11,000
9	Procurement	-	-
10	Customer Services	35,031	35,031
11	Information Technology	24,879	24,879
12	Support Services	22,314	22,314
13	Administrative and General	95,606	95,606
14	Subtotal (2016\$)	\$ 232,258	\$ 232,258
15	Shared Services Adjustments	6,707	6,707
16	Reassignments	(41,185)	(41,185)
17	FERC Transmission Costs		
18	Escalation	10,024	10,024
19	Uncollectibles	564	747
20	Franchise Fees	6,745	8,929
21	Total O&M (2019\$)	\$ 215,113	\$ 217,479
22	Depreciation & Amortization	84,968	84,968
23	Taxes on Income	(12,436)	32,001
24	Taxes Other Than on Income	21,431	21,431
25	Total Operating Expenses	\$ 309,075	\$ 355,879
26	Return	19,422	76,397
27	Rate Base	1,009,433	1,011,885
28	Rate of Return	1.92%	7.55%

TABLE 02-7
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
GAS SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019	2019	\$	%
		Proposed Rates	Proposed Rates	Variance	Variance
		(2019\$)	(2019\$)		
1	Base Margin	\$ 396,843	\$ 429,293	\$ 32,450	8.2%
2	Miscellaneous Revenues	5,970	2,983	(2,987)	-50.0%
3	Revenue Requirement	\$ 402,813	\$ 432,276	\$ 29,463	7.3%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	32,311	36,480	4,169	12.9%
5	Gas Transmission	6,290	6,668	378	6.0%
6	PSEP	-	-	-	0.0%
7	Generation	280	280	(0)	-0.1%
8	Engineering	11,000	11,000	-	0.0%
9	Procurement	-	-	-	0.0%
10	Customer Services	32,951	35,031	2,080	6.3%
11	Information Technology	21,783	24,879	3,096	14.2%
12	Support Services	19,052	22,314	3,262	17.1%
13	Administrative and General	73,420	95,606	22,186	30.2%
14	Subtotal (2016\$)	\$ 197,087	\$ 232,258	\$ 35,171	17.8%
15	Shared Services Adjustments	6,539	6,707	168	2.6%
16	Reassignments	(30,414)	(41,185)	(10,771)	35.4%
17	FERC Transmission Costs				
18	Escalation	8,378	10,024	1,646	19.6%
19	Uncollectibles	691	747	56	8.2%
20	Franchise Fees	8,254	8,929	675	8.2%
21	Total O&M (2019\$)	\$ 190,535	\$ 217,479	\$ 26,944	14.1%
22	Depreciation & Amortization	84,088	84,968	880	1.0%
23	Taxes on Income	33,095	32,001	(1,094)	-3.3%
24	Taxes Other Than on Income	20,983	21,431	448	2.1%
25	Total Operating Expenses	\$ 328,701	\$ 355,879	\$ 27,178	8.3%
26	Return	74,112	76,397	2,285	3.1%
27	Rate Base	981,613	1,011,885	30,272	3.1%
28	Rate of Return	7.55%	7.55%	(0.00)	0.0%

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TABLE 02-8
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
GAS SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019	2019	\$	%
		Present Rates	Present Rates	Variance	Variance
		(2019\$)	(2019\$)		
1	Base Margin	\$ 324,291	\$ 324,291	\$ -	0.0%
2	Miscellaneous Revenues	4,206	4,206	-	0.0%
3	Revenue Requirement	\$ 328,497	\$ 328,497	\$ -	0.0%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	32,311	36,480	4,169	12.9%
5	Gas Transmission	6,290	6,668	378	6.0%
6	PSEP	-	-	-	0.0%
7	Generation	280	280	(0)	-0.1%
8	Engineering	11,000	11,000	-	0.0%
9	Procurement	-	-	-	0.0%
10	Customer Services	32,951	35,031	2,080	6.3%
11	Information Technology	21,783	24,879	3,096	14.2%
12	Support Services	19,052	22,314	3,262	17.1%
13	Administrative and General	73,420	95,606	22,186	30.2%
14	Subtotal (2016\$)	\$ 197,087	\$ 232,258	\$ 35,171	17.8%
15	Shared Services Adjustments	6,539	6,707	168	2.6%
16	Reassignments	(30,414)	(41,185)	(10,771)	35.4%
17	FERC Transmission Costs				
18	Escalation	8,378	10,024	1,646	19.6%
19	Uncollectibles	564	564	(0)	0.0%
20	Franchise Fees	6,745	6,745	0	0.0%
21	Total O&M (2019\$)	\$ 188,900	\$ 215,113	\$ 26,213	13.9%
22	Depreciation & Amortization	84,088	84,968	880	1.0%
23	Taxes on Income	1,238	(12,436)	(13,674)	-1104.4%
24	Taxes Other Than on Income	20,983	21,431	448	2.1%
25	Total Operating Expenses	\$ 295,208	\$ 309,075	\$ 13,867	4.7%
26	Return	33,289	19,422	(13,867)	-41.7%
27	Rate Base	980,964	1,009,433	28,469	2.9%
28	Rate of Return	3.39%	1.92%	(0)	-43.4%

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TABLE 02-9
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
ELECTRIC SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA 2019 Present Rates (2019\$)	ORA 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 1,637,656	\$ 1,560,354
2	Miscellaneous Revenues	28,027	28,027
3	Revenue Requirement	\$ 1,665,683	\$ 1,588,381
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	129,144	129,144
5	Gas Transmission	-	-
6	PSEP	-	-
7	Generation	40,335	40,335
8	Engineering	-	-
9	Procurement	8,641	8,641
10	Customer Services	55,884	55,884
11	Information Technology	62,523	62,523
12	Support Services	66,202	66,202
13	Administrative and General	317,975	317,975
14	Subtotal (2016\$)	\$ 680,704	\$ 680,704
15	Shared Services Adjustments	(19,666)	(19,666)
16	Reassignments	(105,631)	(105,631)
17	FERC Transmission Costs	(63,170)	(63,170)
18	Escalation	17,542	17,542
19	Uncollectibles	2,850	2,715
20	Franchise Fees	56,447	53,782
21	Total O&M (2019\$)	\$ 569,076	\$ 566,277
22	Depreciation & Amortization	432,615	432,615
23	Taxes on Income	167,490	140,179
24	Taxes Other Than on Income	94,119	94,119
25	Total Operating Expenses	\$ 1,263,300	\$ 1,233,190
26	Return	402,383	355,190
27	Rate Base	4,706,017	4,704,508
28	Rate of Return	8.55%	7.55%

TABLE 02-10
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
ELECTRIC SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	SDG&E 2019 Present Rates (2019\$)	SDG&E 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 1,637,656	\$ 1,748,981
2	Miscellaneous Revenues	14,993	14,993
3	Revenue Requirement	\$ 1,653,508	\$ 1,763,974
<u>OPERATING & MAINTENANCE EXPENSES</u>			
4	Distribution	157,783	157,783
5	Gas Transmission	-	-
6	PSEP	-	-
7	Generation	63,131	63,131
8	Engineering	-	-
9	Procurement	8,641	8,641
10	Customer Services	59,422	59,422
11	Information Technology	71,478	71,478
12	Support Services	78,040	78,040
13	Administrative and General	385,312	385,312
14	Subtotal (2016\$)	\$ 823,808	\$ 823,808
15	Shared Services Adjustments	(23,280)	(23,280)
16	Reassignments	(142,668)	(142,668)
17	FERC Transmission Costs	(74,320)	(74,320)
18	Escalation	22,877	22,877
19	Uncollectibles	2,850	3,043
20	Franchise Fees	56,447	60,284
21	Total O&M (2019\$)	\$ 665,712	\$ 669,743
22	Depreciation & Amortization	474,694	474,694
23	Taxes on Income	73,363	119,997
24	Taxes Other Than on Income	99,108	99,108
25	Total Operating Expenses	\$ 1,312,878	\$ 1,363,543
26	Return	340,630	400,431
27	Rate Base	5,300,732	5,303,716
28	Rate of Return	6.43%	7.55%

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TABLE 02-11
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
ELECTRIC SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019	2019	\$	%
		Proposed Rates	Proposed Rates	Variance	Variance
		(2019\$)	(2019\$)		
1	Base Margin	\$ 1,560,354	\$ 1,748,981	\$ 188,627	12.1%
2	Miscellaneous Revenues	28,027	14,993	(13,034)	-46.5%
3	Revenue Requirement	\$ 1,588,381	\$ 1,763,974	\$ 175,593	11.1%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	129,144	157,783	28,639	22.2%
5	Gas Transmission	-	-	-	0.0%
6	PSEP	-	-	-	0.0%
7	Generation	40,335	63,131	22,796	56.5%
8	Engineering	-	-	-	0.0%
9	Procurement	8,641	8,641	-	0.0%
10	Customer Services	55,884	59,422	3,538	6.3%
11	Information Technology	62,523	71,478	8,955	14.3%
12	Support Services	66,202	78,040	11,838	17.9%
13	Administrative and General	317,975	385,312	67,337	21.2%
14	Subtotal (2016\$)	\$ 680,704	\$ 823,808	\$ 143,104	21.0%
15	Shared Services Adjustments	(19,666)	(23,280)	(3,614)	18.4%
16	Reassignments	(105,631)	(142,668)	(37,037)	35.1%
17	FERC Transmission Costs	(63,170)	(74,320)	(11,150)	17.7%
18	Escalation	17,542	22,877	5,335	30.4%
19	Uncollectibles	2,715	3,043	328	12.1%
20	Franchise Fees	53,782	60,284	6,502	12.1%
21	Total O&M (2019\$)	\$ 566,277	\$ 669,743	\$ 103,466	18.3%
22	Depreciation & Amortization	432,615	474,694	42,079	9.7%
23	Taxes on Income	140,179	119,997	(20,182)	-14.4%
24	Taxes Other Than on Income	94,119	99,108	4,989	5.3%
25	Total Operating Expenses	\$ 1,233,190	\$ 1,363,543	\$ 130,353	10.6%
26	Return	355,190	400,431	45,241	12.7%
27	Rate Base	4,704,508	5,303,716	599,208	12.7%
28	Rate of Return	7.55%	7.55%	0.00%	0.0%

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TABLE 02-12
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2019
ELECTRIC SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SDG&E	SDG&E Exceeds ORA	
		2019	2019	\$	%
		Present Rates	Present Rates	Variance	Variance
		(2019\$)	(2019\$)		
1	Base Margin	\$ 1,637,656	\$ 1,637,656	\$ -	0.0%
2	Miscellaneous Revenues	28,027	14,993	(13,034)	-46.5%
3	Revenue Requirement	\$ 1,665,683	\$ 1,653,508	\$ (12,175)	-0.7%
<u>OPERATING & MAINTENANCE EXPENSES</u>					
4	Distribution	129,144	157,783	28,639	22.2%
5	Gas Transmission	-	-	-	0.0%
6	PSEP	-	-	-	0.0%
7	Generation	40,335	63,131	22,796	56.5%
8	Engineering	-	-	-	0.0%
9	Procurement	8,641	8,641	-	0.0%
10	Customer Services	55,884	59,422	3,538	6.3%
11	Information Technology	62,523	71,478	8,955	14.3%
12	Support Services	66,202	78,040	11,838	17.9%
13	Administrative and General	317,975	385,312	67,337	21.2%
14	Subtotal (2016\$)	\$ 680,704	\$ 823,808	\$ 143,104	21.0%
15	Shared Services Adjustments	(19,666)	(23,280)	(3,614)	18.4%
16	Reassignments	(105,631)	(142,668)	(37,037)	35.1%
17	FERC Transmission Costs	(63,170)	(74,320)	(11,150)	17.7%
18	Escalation	17,542	22,877	5,335	30.4%
19	Uncollectibles	2,850	2,850	0	0.0%
20	Franchise Fees	56,447	56,447	0	0.0%
21	Total O&M (2019\$)	\$ 569,076	\$ 665,712	\$ 96,636	17.0%
22	Depreciation & Amortization	432,615	474,694	42,079	9.7%
23	Taxes on Income	167,490	73,363	(94,127)	-56.2%
24	Taxes Other Than on Income	94,119	99,108	4,989	5.3%
25	Total Operating Expenses	\$ 1,263,300	\$ 1,312,878	\$ 49,578	3.9%
26	Return	402,383	340,630	(61,753)	-15.3%
27	Rate Base	4,706,017	5,300,732	594,715	12.6%
28	Rate of Return	8.55%	6.43%	-2.12%	-24.8%

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Table 02-13
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2019
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA 2019 Present Rates (2019\$)	ORA 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 2,357,456	\$ 2,687,391
2	Miscellaneous Revenues	98,685	80,860
3	Revenue Requirement	\$ 2,456,141	\$ 2,768,251
<u>Operating and Maintenance Expenses</u>			
4	Gas Distribution	125,600	125,600
5	Transmission	50,521	50,521
6	Underground Storage	60,074	60,074
7	Engineering	111,552	111,552
8	PSEP	70,983	70,983
9	Procurement	3,980	3,980
10	Customer Services	308,796	308,796
11	Information Technology	26,382	26,382
12	Support Services	120,047	120,047
13	Administrative and General	523,752	523,752
14	Subtotal (2016\$)	\$ 1,401,688	\$ 1,401,688
15	Shared Services Adjustments	51,169	51,169
16	Reassignments	(150,894)	(150,894)
17	Escalation	65,331	65,331
18	Uncollectibles	7,276	8,294
19	Franchise Fees	32,365	36,892
20	Total O&M (2019\$)	\$ 1,406,934	\$ 1,412,479
21	Depreciation	593,885	593,885
22	Taxes on Income	26,127	160,480
23	Taxes Other Than on Income	121,385	121,385
24	Total Operating Expenses	2,148,331	2,288,229
25	Return	307,810	480,022
26	Rate Base	6,534,615	6,539,806
27	Rate of Return	4.71%	7.34%

Table 02-14
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2019
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	SoCalGas 2019 Present Rates (2019\$)	SoCalGas 2019 Proposed Rates (2019\$)
1	Base Margin	\$ 2,357,456	\$ 2,904,554
2	Miscellaneous Revenues	98,685	84,924
3	Revenue Requirement	\$ 2,456,141	\$ 2,989,477
	<u>Operating and Maintenance Expenses</u>		
4	Gas Distribution	157,111	157,111
5	Transmission	88,812	88,812
6	Underground Storage	60,074	60,074
7	Engineering	112,629	112,629
8	PSEP	83,156	83,156
9	Procurement	4,230	4,230
10	Customer Services	314,564	314,564
11	Information Technology	33,636	33,636
12	Support Services	154,514	154,514
13	Administrative and General	625,670	625,670
14	Subtotal (2016\$)	\$ 1,634,396	\$ 1,634,396
15	Shared Services Adjustments	54,665	54,665
16	Reassignments	(185,523)	(185,523)
17	Escalation	77,760	77,760
18	Uncollectibles	7,276	8,964
19	Franchise Fees	32,365	39,871
20	Total O&M (2019\$)	\$ 1,620,938	\$ 1,630,133
21	Depreciation	606,830	606,830
22	Taxes on Income	(100,870)	128,807
23	Taxes Other Than on Income	126,939	126,939
24	Total Operating Expenses	\$ 2,253,836	\$ 2,492,708
25	Return	202,305	496,769
26	Rate Base	6,755,680	6,767,967
27	Rate of Return	2.99%	7.34%

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Table 02-15
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2019
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SoCalGas	SoCalGas Exceeds ORA	
		2019	2019	\$	%
		Proposed Rates	Proposed Rates	Variance	Variance
		(2019\$)	(2019\$)		
1	Base Margin	\$ 2,687,391	\$ 2,904,554	\$ 217,163	8.1%
2	Miscellaneous Revenues	80,860	84,924	4,064	5.0%
3	Revenue Requirement	\$ 2,768,251	\$ 2,989,477	\$ 221,226	8.0%
<u>Operating and Maintenance Expenses</u>					
4	Gas Distribution	125,600	157,111	31,511	25.1%
5	Transmission	50,521	88,812	38,291	75.8%
6	Underground Storage	60,074	60,074	0	0.0%
7	Engineering	111,552	112,629	1,077	1.0%
8	PSEP	70,983	83,156	12,173	0.0%
9	Procurement	3,980	4,230	250	6.3%
10	Customer Services	308,796	314,564	5,768	1.9%
11	Information Technology	26,382	33,636	7,254	27.5%
12	Support Services	120,047	154,514	34,467	28.7%
13	Administrative and General	523,752	625,670	101,918	19.5%
14	Subtotal (2016\$)	\$ 1,401,688	\$ 1,634,396	\$ 232,708	16.6%
15	Shared Services Adjustments	51,169	54,665	3,496	6.8%
16	Reassignments	(150,894)	(185,523)	(34,629)	22.9%
17	Escalation	65,331	77,760	12,429	19.0%
18	Uncollectibles	8,294	8,964	670	8.1%
19	Franchise Fees	36,892	39,871	2,979	8.1%
20	Total O&M (2019\$)	\$ 1,412,479	\$ 1,630,133	\$ 217,654	15.4%
21	Depreciation	593,885	606,830	12,945	2.2%
22	Taxes on Income	160,480	128,807	(31,673)	-19.7%
23	Taxes Other Than on Income	121,385	126,939	5,554	4.6%
24	Total Operating Expenses	\$ 2,288,229	\$ 2,492,708	\$ 204,479	8.9%
25	Return	480,022	496,769	16,747	3.5%
26	Rate Base	6,539,806	6,767,967	228,161	3.5%
27	Rate of Return	7.34%	7.34%	0.00%	0.0%

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Table 02-16
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2019
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description	ORA	SoCalGas	SoCalGas Exceeds ORA	
		2019 Present Rates (2019\$)	2019 Present Rates (2019\$)	\$ Variance	% Variance
1	Base Margin	\$ 2,357,456	\$ 2,357,456	\$ -	0.0%
2	Miscellaneous Revenues	98,685	98,685	-	0.0%
3	Revenue Requirement	\$ 2,456,141	\$ 2,456,141	\$ -	0.0%
<u>Operating and Maintenance Expenses</u>					
4	Gas Distribution	125,600	157,111	31,511	25.1%
5	Transmission	50,521	88,812	38,291	75.8%
6	Underground Storage	60,074	60,074	0	0.0%
7	Engineering	111,552	112,629	1,077	1.0%
8	PSEP	70,983	83,156	12,173	0.0%
9	Procurement	3,980	4,230	250	6.3%
10	Customer Services	308,796	314,564	5,768	1.9%
11	Information Technology	26,382	33,636	7,254	27.5%
12	Support Services	120,047	154,514	34,467	28.7%
13	Administrative and General	523,752	625,670	101,918	19.5%
14	Subtotal (2016\$)	\$ 1,401,688	\$ 1,634,396	\$ 232,708	16.6%
15	Shared Services Adjustments	51,169	54,665	3,496	6.8%
16	Reassignments	(150,894)	(185,523)	(34,629)	22.9%
17	Escalation	65,331	77,760	12,429	19.0%
18	Uncollectibles	7,276	7,276	0	0.0%
19	Franchise Fees	32,365	32,365	(0)	0.0%
20	Total O&M (2019\$)	\$ 1,406,934	\$ 1,620,938	\$ 214,004	15.2%
21	Depreciation	593,885	606,830	12,945	2.2%
22	Taxes on Income	26,127	(100,870)	(126,997)	-486.1%
23	Taxes Other Than on Income	121,385	126,939	5,554	4.6%
24	Total Operating Expenses	\$ 2,148,331	\$ 2,253,836	\$ 105,505	4.9%
25	Return	307,810	202,305	(105,505)	-34.3%
26	Rate Base	6,534,615	6,755,680	221,065	3.4%
27	Rate of Return	4.71%	2.99%	-1.72%	-36.5%

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Table 02-17
San Diego Gas and Electric Company
TEST YEAR 2019
WEIGHTED AVERAGE DEPRECIATED RATE BASE
SUMMARY OF TOTAL CPUC RATE BASE
(Thousands of Dollars)

Line No.	Account Description	2016	ORA	SDG&E	SDG&E Exceeds ORA	
		Recorded (2016\$)	Test Year 2019 (2019\$)	Test Year 2019 (2019\$)	\$ Variance	% Variance
	Fixed Capital					
1	Plant In Service	9,805,446	12,017,416	12,567,599	550,183	4.58%
2	<u>Total Fixed Capital</u>	<u>9,805,446</u>	<u>12,017,416</u>	<u>12,567,599</u>	<u>550,183</u>	<u>4.58%</u>
	Working Capital					
3	Fuel in Storage	285	-	285	285	#DIV/0!
4	Materials & Supplies	101,671	114,891	114,891	-	0.00%
5	Working Cash	100,712	67,111	175,117	108,006	160.94%
6	<u>Total Working Capital</u>	<u>202,668</u>	<u>182,003</u>	<u>290,293</u>	<u>108,291</u>	<u>59.50%</u>
7	Repair Deductions Rate Base Adustment (2016-2042) ¹	(54,952)	(48,611)	(48,611)		
8	Customer Advances For Construction	(36,380)	(48,796)	(35,422)	13,374	-27.41%
9	<u>Total Other</u>	<u>(91,332)</u>	<u>(97,407)</u>	<u>(84,033)</u>	<u>13,374</u>	<u>-13.73%</u>
	Deductions For Reserves					
10	Accumulated Depreciation Reserve	4,205,342	5,000,999	4,981,440	(19,559)	-0.39%
11	Accumulated Amortization Reserve	318,851	540,979	548,525	7,546	1.39%
12	Accumulated Deferred Taxes	713,979	873,912	928,294	54,382	6.22%
13	<u>Total Deductions For Reserves</u>	<u>5,238,172</u>	<u>6,415,890</u>	<u>6,458,259</u>	<u>42,369</u>	<u>0.66%</u>
14	<u>Weighted Average Depreciated Rate Base</u>	<u>4,678,610</u>	<u>5,686,121</u>	<u>6,315,601</u>	<u>629,479</u>	<u>11.07%</u>

¹ D.16-06-054, p. 192

Table 02-18
San Diego Gas and Electric Company
TEST YEAR 2019
WEIGHTED AVERAGE DEPRECIATED RATE BASE
SUMMARY OF GAS RATE BASE
(Thousands of Dollars)

Line No.	Account Description	2016 Recorded (2016\$)	ORA Test Year 2019 (2019\$)	SDG&E Test Year 2019 (2019\$)	SDG&E Exceeds ORA \$ Variance	% Variance
	Fixed Capital					
1	Plant In Service	1,810,744	2,360,753	2,361,232	479	0.02%
2	<u>Total Fixed Capital</u>	<u>1,810,744</u>	<u>2,360,753</u>	<u>2,361,232</u>	<u>479</u>	<u>0.02%</u>
	Working Capital					
3	Fuel in Storage	285	-	285	285	#DIV/0!
4	Materials & Supplies	3,311	3,550	3,550	-	0.00%
5	Working Cash	8,575	6,055	30,739	24,683	407.64%
6	<u>Total Working Capital</u>	<u>12,171</u>	<u>9,605</u>	<u>34,573</u>	<u>24,968</u>	<u>259.94%</u>
7	Repair Deductions Rate Base Adjustment (2016-2042) ¹	-	-	-		
8	Customer Advances For Construction	(2,340)	(2,642)	(2,079)	564	-21.33%
9	<u>Total Other</u>	<u>(2,340)</u>	<u>(2,642)</u>	<u>(2,079)</u>	<u>564</u>	<u>-21.33%</u>
	Deductions For Reserves					
10	Accumulated Depreciation Reserve	994,289	1,114,766	1,112,955	(1,811)	-0.16%
11	Accumulated Amortization Reserve	64,967	110,275	111,696	1,421	1.29%
12	Accumulated Deferred Taxes	104,148	161,062	157,191	(3,870)	-2.40%
13	<u>Total Deductions For Reserves</u>	<u>1,163,403</u>	<u>1,386,103</u>	<u>1,381,842</u>	<u>(4,261)</u>	<u>-0.31%</u>
14	<u>Weighted Average Depreciated Rate Base</u>	<u>657,171</u>	<u>981,613</u>	<u>1,011,885</u>	<u>30,271</u>	<u>3.08%</u>

1 D.16-06-054, p. 192

Table 02-19
San Diego Gas and Electric Company
TEST YEAR 2019
WEIGHTED AVERAGE DEPRECIATED RATE BASE
SUMMARY OF ELECTRIC RATE BASE
(Thousands of Dollars)

Line No.	Account Description	2016 Recorded (2016\$)	ORA Test Year 2019 (2019\$)	SDG&E Test Year 2019 (2019\$)	SDG&E Exceeds ORA \$ Variance	ORA % Variance
	Fixed Capital					
1	Plant In Service	7,994,702	9,656,663	10,206,367	549,704	5.69%
2	<u>Total Fixed Capital</u>	<u>7,994,702</u>	<u>9,656,663</u>	<u>10,206,367</u>	<u>549,704</u>	<u>5.69%</u>
	Working Capital					
3	Materials & Supplies	98,360	111,341	111,341	-	0.00%
4	Working Cash	92,137	61,056	144,379	83,323	136.47%
5	<u>Total Working Capital</u>	<u>190,497</u>	<u>172,397</u>	<u>255,720</u>	<u>83,323</u>	<u>48.33%</u>
7	Repair Deductions Rate Base Adjstment (2016-2042) ¹	(54,952)	(48,611)	(48,611)		
8	Customer Advances For Construction	(34,041)	(46,154)	(33,343)	12,811	-27.76%
9	<u>Total Other</u>	<u>(88,992)</u>	<u>(94,765)</u>	<u>(81,954)</u>	<u>12,811</u>	<u>-13.52%</u>
	Deductions For Reserves					
10	Accumulated Depreciation Reserve	3,211,053	3,886,233	3,868,485	(17,748)	-0.46%
11	Accumulated Amortization Reserve	253,884	430,704	436,829	6,125	1.42%
12	Accumulated Deferred Taxes	609,831	712,850	771,103	58,253	8.17%
13	<u>Total Deductions For Reserves</u>	<u>4,074,768</u>	<u>5,029,787</u>	<u>5,076,417</u>	<u>46,629</u>	<u>0.93%</u>
14	Weighted Average Depreciated Rate Base	<u>4,021,439</u>	<u>4,704,508</u>	<u>5,303,716</u>	<u>599,208</u>	<u>12.74%</u>

1 D.16-06-054, p. 192

Table 02-20
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2019
WEIGHTED AVERAGE DEPRECIATED RATE BASE
(Thousands of Dollars)

Line No.	Account Description	2016	ORA	SoCalGas	SoCalGas Exceed ORA	
		Recorded (2016\$)	Test Year 2019 (2019\$)	Test Year 2019 (2019\$)	\$ Variance	% Variance
Fixed Capital						
1	Plant In Service	12,560,245	15,783,717	15,921,686	137,969	0.87%
2	Work-In-Progress (non-interest bearing)	507	563	666	103	18.30%
3	<u>Total Fixed Capital</u>	<u>12,560,752</u>	<u>15,784,279</u>	<u>15,922,351</u>	<u>138,072</u>	<u>0.87%</u>
Working Capital						
4	Materials & Supplies	21,490	24,506	24,506	-	0.00%
5	Working Cash	(341)	87,538	179,810	92,271	105.41%
6	<u>Total Working Capital</u>	<u>21,149</u>	<u>112,045</u>	<u>204,316</u>	<u>92,271</u>	<u>82.35%</u>
Other						
7	Customer Advances For Construction	(97,909)	(96,879)	(96,879)	-	0.00%
8	Deferred Revenue - ITCC	(38,640)	(31,888)	(33,782)	(1,894)	5.94%
9	Repair Deductions Rate Base Adjustment (2016-2042) ¹	(37,958)	(32,782)	(32,782)		
10	<u>Total Other</u>	<u>(174,507)</u>	<u>(161,549)</u>	<u>(163,443)</u>	<u>(1,894)</u>	<u>1.17%</u>
Deductions For Reserves						
11	Accumulated Depreciation Reserve	6,788,175	7,860,704	7,861,368	664	0.01%
12	Accumulated Deferred Taxes - Plant	1,186,177	1,474,605	1,477,977	3,371	0.23%
13	Accumulated Deferred Taxes - CIAC	(124,794)	(140,340)	(144,087)	(3,747)	2.67%
14	Accumulated Deferred Investment Tax Credits	0	0	0	-	0.00%
15	<u>Total Deductions For Reserves</u>	<u>7,849,558</u>	<u>9,194,969</u>	<u>9,195,258</u>	<u>288</u>	<u>0.00%</u>
16	Weighted Average Depreciated Rate Base	<u>4,557,836</u>	<u>6,539,806</u>	<u>6,767,967</u>	<u>228,161</u>	<u>3.49%</u>

1 D.16-06-054, p. 192